

Press Release

Consolidated Financial Results for the First Three Quarters Ended December 31, 2014

Shin-Etsu Chemical Co., Ltd.

(JP GAAP)



January 29, 2015

Listing Code: No. 4063 (URL: <http://www.shinetsu.co.jp/>)

Listing Stock Exchange: Tokyo and Nagoya

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Date of the filing of the quarterly consolidated financial statements: February 12, 2015

Date of dividend payment: -

Preparation of supplemental explanatory materials: No

Holding of quarterly financial results meeting: Yes (for investment analysts and institutional investors)

Amounts are stated in millions of yen by discarding fractional amounts less than 1 million.

Percentage figures indicate increase (decrease) over previous corresponding period.

1. Consolidated Operating Performance for the First Three Quarters Ended December 31, 2014

(From April 1, 2014 to December 31, 2014)

(1) Results of consolidated operations

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income	
April - December 2014	929,530	6.6%	140,036	3.8%	152,537	7.9%	100,022	8.1%
April - December 2013	872,009	11.5%	134,936	11.4%	141,339	10.4%	92,534	10.9%

(Note) Comprehensive income (Millions of yen) From April 1, 2014 to December 31, 2014: 131,369 [(22.3%)]
From April 1, 2013 to December 31, 2013: 169,173 [91.1%]

	Net income per share (yen)	Diluted net income per share (yen)
April - December 2014	234.93	234.88
April - December 2013	217.65	217.54

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Stockholders' equity ratio	Net assets per share (yen)
December 31, 2014	2,297,999	1,911,221	81.0%	4,369.78
March 31, 2014	2,198,912	1,822,135	80.6%	4,165.28

(Note) Stockholders' equity (Millions of yen) As of December 31, 2014: 1,860,852 As of March 31, 2014: 1,773,133
Stockholders' equity used for the calculation of indices is net assets excluding both share subscription rights and minority interests in consolidated subsidiaries.

2. Cash Dividends

	Cash dividends per share in the fiscal year (yen)				
	1 st quarter	2 nd quarter	3 rd quarter	Year-end	Fiscal year
April 2013 - March 2014	-	50.00	-	50.00	100.00
April 2014 - March 2015	-	50.00	-		
April 2014 - March 2015 (forecast)				50.00	100.00

(Note) Revision of the latest forecast of cash dividends: No

3. Forecast of Consolidated Operating Performance for the Fiscal Year Ending March 31, 2015

(From April 1, 2014 to March 31, 2015)

(Millions of yen)

	Net sales		Operating income		Ordinary income		Net income		Net income per share (yen)
Fiscal year	1,180,000	1.2%	183,000	5.3%	190,000	5.2%	120,000	5.6%	281.89

(Note) Revision of the latest forecast of consolidated operating performance: No

Forward-looking statements such as the forecast of results of operations made in this document involves risks and uncertainties since they are based on management's assumptions and beliefs in light of the information currently available to it. The reader should be aware that actual results may be materially different from any future results expressed herein due to various factors. Material factors affecting the actual results may include overall economic conditions in which the businesses of our company and our group companies are involved, the relevant market trends and fluctuations in foreign exchange rates of the yen, in particular, the exchange rate between the U.S. dollar and the yen; provided, however, that such factors as may affect results of operations are not limited to those enumerated above.

4. Notes

(1) Changes in significant subsidiaries during the first three quarters ended December 31, 2014: No

(Note) This item indicates whether there were changes in significant subsidiaries affecting the scope of consolidation during the first three quarters ended December 31, 2014.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: No

(3) Changes of accounting policies applied, changes in accounting estimates and retrospective restatement

Changes of accounting policies applied due to revisions of accounting standards: Yes

Changes of accounting policies other than the above: No

Changes in accounting estimates: No

Retrospective restatement: No

(Note) Please see “2. Other Information” on page 4 for further details.

(4) Number of shares outstanding (common stock)

	December 31, 2014	March 31, 2014
Number of shares outstanding at period end	432,106,693	432,106,693
Number of shares of treasury stock at period end	6,261,192	6,413,086
	April - December 2014	April - December 2013
Weighted-average number of shares outstanding over period	425,754,252	425,150,526

(Information regarding the implementation of quarterly review procedures)

The financial information contained in this report on the quarterly financial results is not subject to quarterly review procedures by independent auditors in accordance with the Financial Instruments and Exchange Law. At the time of issuing this report, the quarterly review procedures are in progress.

(Attached Documents)

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Appendix: Quarterly Operating Results

1. Qualitative Information Regarding Quarterly Results

(1) Explanation Regarding the Operating Results

With regard to the world economy during the first three quarters of FY 2015 (April 1, 2014 to December 31, 2014), although the recovery of the economy continued in the U.S., the European economy turned out to be lacking in strength, and a sluggish tendency was seen in the emerging economies, such as those in the Asian region. In Japan, although weakness was seen in consumer spending due in part to the effects of the increase in the consumption tax, the economy moved along a gradual recovery track.

In these circumstances, the Shin-Etsu Group further promoted sales to its wide range of customers around the world, and at the same time, in addition to striving to enhance technologies, productivity and product quality, we assiduously worked on the development of new products. We also focused on strengthening our production capacity, globally diversifying our manufacturing bases and stably securing raw materials.

As a result, the consolidated business results for the first three quarters of FY 2015 show that net sales increased by 6.6% (¥57,521 million) compared with the same fiscal period last year to ¥929,530 million. Compared with the performance of the same fiscal period last year, operating income increased by 3.8% (¥5,100 million) to ¥140,036 million, ordinary income increased by 7.9% (¥11,198 million) to ¥152,537 million and net income increased by 8.1% (¥7,488 million) to ¥100,022 million.

PVC/Chlor-Alkali Business

With regard to the PVC business, although Shintech Inc. in the U.S. was affected by the increase in prices of raw materials for PVC and a decline in the caustic soda market, Shintech's profit continued to be strong as a result of capturing the demand for PVC in the U.S., where a recovery was seen in the housing market, and aggressively carrying out sales to its worldwide customers. Shin-Etsu PVC in the Netherlands continued to do well in its shipments. In Japan, although exports were on a recovery track, there was slack domestic housing-related demand and the influence of price fluctuations of raw materials, and a severe business situation continued.

As a result, compared with the first three quarters of FY 2014, net sales for this business segment increased by 4.3% (¥13,995 million) to ¥337,553 million and operating income decreased by 16.8% (¥8,099 million) to ¥40,138 million.

Silicones Business

With regard to the silicones business, in Japan, in addition to the recovery in sales of product applications for electronics equipment, sales of product applications for automobiles and cosmetics also generally continued to do well. Our silicones business outside of Japan also did well in functional products and general-purpose products, starting with in Europe and the U.S., and in Southeast Asia and China as well. In this third quarter of FY 2015, Shin-Etsu Silicone (Nantong) Co., Ltd., the Shin-Etsu Group silicones manufacturing and sales company in China, booked a ¥4,679 million impairment loss for fixed assets.

As a result, compared with the first three quarters of FY 2014, net sales for this business segment increased by 12.3% (¥14,308 million) to ¥130,419 million and operating income increased by 0.5% (¥115 million) to ¥23,176 million.

Specialty Chemicals Business

With regard to cellulose derivatives, in Japan, although sales of products for pharmaceutical-use continued to be firm, in sales of products for building and construction applications, a downturn in housing starts in reaction to the consumption tax rate increase became evident and shipments decreased going into the second half of the fiscal year. The business of SE Tylose in Germany was affected by intensifying price competition. The business of Simcoa Operations in Australia continued to be firm, aided by the recovery of the silicon metal market. In addition, synthetic pheromones did well, with a large volume of shipments.

As a result, compared with the first three quarters of FY 2014, net sales for this business segment increased by 7.9% (¥6,062 million) to ¥83,245 million and operating income increased by 12.6% (¥1,232 million) to ¥11,022 million.

Semiconductor Silicon Business

With regard to semiconductor silicon, in addition to applications for memory devices continuing to do well, robust demand for semiconductor devices continued in a wide range of fields, including applications for smartphones, and shipments continued at a high level.

As a result, compared with the first three quarters of FY 2014, net sales for this business segment increased by 4.5% (¥7,284 million) to ¥168,850 million and operating income increased by 31.2% (¥6,228 million) to ¥26,158 million.

Electronics & Functional Materials Business

With regard to the rare earth magnets business, shipments of products for applications in automobiles were good, starting with hybrid cars, and shipments of products for applications in large-capacity hard disk drives were also firm. With regard to the photoresist products business, ArF resists and trilayer materials expanded aided by the progress in semiconductor device miniaturization. The business of materials for LED packaging also continued to be firm. The business of synthetic quartz products such as optical fiber preform was affected by customers' inventory adjustments and a sluggish market.

As a result, compared with the first three quarters of FY 2014, net sales for this business segment increased by 7.6% (¥9,706 million) to ¥136,878 million and operating income increased by 14.9 % (¥4,635 million) to ¥35,653 million.

Diversified Business

Shin-Etsu Polymer Co., Ltd.'s business of input devices for automobiles and semiconductor wafer-related containers continued to be firm. In addition, the engineering business of Shin-Etsu Engineering Co., Ltd. also continued to be firm.

As a result, compared with the first three quarters of FY 2014, net sales for this business segment increased by 9.3% (¥6,165 million) to ¥72,582 million and operating income increased by 37.6% (¥1,064 million) to ¥3,897 million.

(2) Explanation Regarding Information Relevant to Forecasts such as the Consolidated Business Forecast

In the world economy, there are concerns over what the effects will be of a movement towards normalization of monetary policy in the U.S. and also concerns over the effects of Europe's financial problems. In addition, the future direction of the emerging economies is uncertain. In Japan as well, there are concerns about the prolonging of the effects of the counter-reaction to the last-minute surge in demand from the consumption tax increase and also about the effects of a downward movement in the world economy. The situation is such that it does not allow for optimism.

Among the main products of the Shin-Etsu Group, there are products that will be affected by fluctuations in market conditions and raw materials prices. In addition, about 70% of the Group's sales consist of sales outside of Japan, and exchange rate fluctuations affect our company's business and also affect us when converting Shin-Etsu Chemical's overseas Group companies' business results into Japanese yen.

Faced with such a global economic environment, the Shin-Etsu Group will carefully focus on developments in world markets and aggressively promote sales activities that capture the growth in demand. At the same time, we will further accelerate the development of our businesses by such means as constructing manufacturing bases at optimal locations in the world and strengthening and expanding existing facilities. Moreover, we will vigorously work to further strengthen the foundations of each of our businesses by all the more focusing on enhancing technologies, productivity and product quality. We will endeavor to develop products that have special characteristics, and we will also strive to assure the stable securing of raw materials.

With regard to the forecast for the FY 2015 consolidated business results, there is no change in the forecast we announced on July 24, 2014.

2. Other Information

Changes of accounting policies applied, changes in accounting estimates and retrospective restatement

Changes in accounting policies

Effective from the beginning of the first quarter of FY 2015, Shin-Etsu Chemical adopted the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No.26, issued May 17, 2012, hereinafter referred as the "Accounting Standards for Retirement Benefits") and its accompanying implementation guidance, "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012) with respect to certain provisions described in Section 35 of the standard and in Section 67 of the guidance.

In applying these accounting standards, there was a change from the straight-line basis to the benefit formula basis as the method for attributing the expected retirement benefit to periods of service for the calculation of the retirement benefit obligation and service costs.

Concerning the application of the Accounting Standards for Retirement Benefits, based on the provisional treatment set out in Section 37 of the accounting standards, the effects of such changes in the first three quarters of FY 2015 have been adjusted in the beginning balance of retained earnings. The impact of these changes on assets, liabilities, net assets, operating income, ordinary income and income before income taxes and minority interests for the first three quarters of FY 2015 is immaterial.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

As of March 31 and December 31, 2014

	Millions of yen	
	March 31, 2014	December 31, 2014
ASSETS		
Current Assets:		
Cash and time deposits	363,339	394,631
Notes and accounts receivable-trade	267,243	306,507
Securities	274,282	286,555
Inventories	273,136	261,270
Other	64,850	74,499
Less: Allowance for doubtful accounts	(7,023)	(7,360)
Total current assets	1,235,829	1,316,104
Fixed Assets:		
Property, plant and equipment		
Machinery and equipment, net	424,526	407,121
Other, net	296,272	311,771
Total property, plant and equipment	720,799	718,892
Intangible assets	19,408	17,012
Investments and other assets:		
Investments and other assets	223,289	246,422
Less: Allowance for doubtful accounts	(414)	(431)
Total investments and other assets	222,875	245,990
Total fixed assets	963,083	981,895
TOTAL ASSETS	2,198,912	2,297,999

	Millions of yen	
	March 31, 2014	December 31, 2014
LIABILITIES		
Current Liabilities:		
Notes and accounts payable-trade	109,401	121,203
Short-term borrowings	7,524	6,712
Accrued income taxes	32,118	19,115
Allowances	2,796	2,848
Other	102,321	106,987
	254,161	256,866
Long-term Liabilities:		
Long-term debt	7,557	7,169
Allowances	258	263
Net defined benefit liability	28,127	28,435
Other	86,671	94,042
	122,615	129,911
	376,776	386,778
NET ASSETS		
Stockholders' Equity:		
Common stock	119,419	119,419
Additional paid-in capital	128,625	128,586
Retained earnings	1,541,127	1,598,317
Less: Treasury stock, at cost	(34,954)	(34,130)
	1,754,218	1,812,194
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	10,439	18,490
Deferred gains (losses) on hedges	493	60
Foreign currency translation adjustments	9,451	31,160
Remeasurements of defined benefit plans	(1,470)	(1,053)
	18,914	48,658
Share Subscription Rights	426	188
Minority Interests in Consolidated Subsidiaries	48,574	50,180
	1,822,135	1,911,221
	2,198,912	2,297,999

(2) Consolidated Statements of Income and Statements of Comprehensive Income

Consolidated Statements of Income

For the first three quarters ended December 31, 2013 and 2014

	Millions of yen	
	April 1, 2013 - December 31, 2013	April 1, 2014 - December 31, 2014
Net sales	872,009	929,530
Cost of sales	650,165	694,691
Gross profit	221,843	234,839
Selling, general and administrative expenses	86,906	94,802
Operating income	134,936	140,036
Non-operating income:		
Interest income	2,559	2,657
Foreign exchange gain	9,062	11,048
Other income	4,281	3,568
Total non-operating income	15,904	17,274
Non-operating expenses	9,501	4,773
Ordinary income	141,339	152,537
Income before income taxes and minority interests	141,339	152,537
Income taxes:		
Current	54,017	51,364
Deferred	(6,380)	43
Total income taxes	47,636	51,408
Income before minority interests	93,702	101,129
Minority interests in earnings of consolidated subsidiaries	1,167	1,107
Net income	92,534	100,022

Consolidated Statements of Comprehensive Income

For the first three quarters ended December 31, 2013 and 2014

	Millions of yen	
	April 1, 2013 - December 31, 2013	April 1, 2014 - December 31, 2014
Income before minority interests	93,702	101,129
Other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities	3,985	8,114
Deferred gains (losses) on hedges	128	(433)
Foreign currency translation adjustments	69,694	22,055
Remeasurements of defined benefit plans	-	406
Share of other comprehensive income of affiliates accounted for using the equity method	1,662	97
Total other comprehensive income	75,470	30,239
Comprehensive income	169,173	131,369
(Breakdown)		
Comprehensive income attributable to owners of the parent	165,716	129,765
Comprehensive income attributable to minority interests	3,456	1,603

(3) Notes to Consolidated Financial Statements
(Notes on Premise of Going Concern)

Not applicable

(Notes on Significant Changes in Stockholders' Equity)

Not applicable

(Segment Information)

I. For the first three quarters ended December 31, 2014 (From April 1, 2014 to December 31, 2014)

1) Information on sales, income (loss) and other items by reportable segment

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2014 - December 31, 2014								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	337,553	130,419	83,245	168,850	136,878	72,582	929,530	-	929,530
Intersegment sales	3,017	4,438	9,757	2	5,333	47,044	69,594	(69,594)	-
Total	340,571	134,857	93,003	168,853	142,212	119,627	999,125	(69,594)	929,530
Segment income (Operating income)	40,138	23,176	11,022	26,158	35,653	3,897	140,047	(11)	140,036

*Elimination of intersegment transactions

2) Information on impairment losses of fixed assets, goodwill and other items by reportable segment

In the Silicones Business segment, Shin-Etsu Silicone (Nantong) Co., Ltd., the Shin-Etsu Group silicones manufacturing and sales company in China, booked a ¥4,679 million impairment loss.

II. For the first three quarters ended December 31, 2013 (From April 1, 2013 to December 31, 2013)

1) Information on sales, income (loss) and other items by reportable segment

	Millions of yen							Adjustment*	Figures in consolidated financial statements
	April 1, 2013 - December 31, 2013								
	PVC/Chlor-Alkali	Silicones	Specialty Chemicals	Semiconductor Silicon	Electronics & Functional Materials	Diversified	Total		
Sales to outside customers	323,558	116,111	77,183	161,566	127,172	66,417	872,009	-	872,009
Intersegment sales	2,804	3,591	7,504	8	3,184	40,237	57,331	(57,331)	-
Total	326,363	119,702	84,688	161,574	130,356	106,654	929,340	(57,331)	872,009
Segment income (Operating income)	48,237	23,061	9,790	19,930	31,018	2,833	134,871	65	134,936

*Elimination of intersegment transactions

2) Information on impairment losses of fixed assets, goodwill and other items by reportable segment

Not applicable

The main products and services of each segment are as follows:

Segment	Main products and services
PVC/Chlor-Alkali Business	Polyvinyl chloride, Caustic soda, Methanol, Chloromethane
Silicones Business	Silicones
Specialty Chemicals Business	Cellulose derivatives, Silicon metal, Polyvinyl alcohol, Synthetic pheromones
Semiconductor Silicon Business	Semiconductor silicon
Electronics & Functional Materials Business	Rare earth magnets for electronics industry and general applications, Semiconductor encapsulating materials, Packaging materials for LEDs, Photoresists, Photomask blanks, Synthetic quartz products, Liquid fluoroelastomers, Pellicles
Diversified Business	Processed plastics, Export of plant equipment, Technology licensing, International trade, Engineering

Appendix: Quarterly Operating Results

(Billions of yen)

	FY 2014 April 1, 2013 - March 31, 2014					FY 2015 April 1, 2014 - March 31, 2015			
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	Total
Net Sales	270.9	301.2	299.8	293.8	1,165.8	294.5	309.1	325.8	929.5
PVC / Chlor-Alkali	102.4	111.2	109.8	104.2	427.8	102.8	110.1	124.5	337.5
Silicones	34.6	40.8	40.5	40.3	156.4	42.0	44.0	44.3	130.4
Specialty Chemicals	23.8	25.9	27.3	26.0	103.2	27.2	26.8	29.2	83.2
Semiconductor Silicon	49.8	55.8	55.8	51.6	213.2	54.4	56.9	57.4	168.8
Electronics & Functional Materials	40.6	43.2	43.3	43.8	170.9	44.9	45.9	45.9	136.8
Diversified	19.4	24.1	22.8	27.6	94.1	23.0	25.2	24.3	72.5
Operating Income	45.5	46.6	42.7	38.8	173.8	48.6	48.9	42.4	140.0
PVC / Chlor-Alkali	16.9	17.2	14.1	11.9	60.1	14.0	14.6	11.5	40.1
Silicones	7.0	7.1	8.8	8.7	31.8	9.1	9.2	※ 4.8	23.1
Specialty Chemicals	3.0	2.8	3.8	2.9	12.7	3.9	3.3	3.7	11.0
Semiconductor Silicon	6.7	7.7	5.4	4.5	24.4	7.8	8.3	9.8	26.1
Electronics & Functional Materials	10.6	10.8	9.4	9.9	40.9	12.0	12.1	11.5	35.6
Diversified	1.1	0.9	0.7	0.8	3.6	1.5	1.3	0.9	3.8
Ordinary Income	49.0	48.3	44.0	39.2	180.6	49.5	51.6	51.3	152.5
Net Income	32.0	31.7	28.7	21.0	113.6	32.9	34.6	32.4	100.0
Depreciation and Amortization	21.3	22.6	23.1	24.2	91.4	22.6	23.7	24.1	70.5
Capital Expenditures	28.8	15.0	13.7	25.5	83.1	13.8	24.9	22.1	60.9
R&D Costs	9.5	10.8	10.4	12.5	43.5	10.3	12.0	11.6	33.9
Overseas Sales	191.3	218.4	216.4	203.9	830.1	206.4	220.3	238.8	665.5
Ratio of Overseas Sales to Net Sales	71%	73%	72%	69%	71%	70%	71%	73%	72%

※ Shin-Etsu Silicone (Nantong) Co., Ltd., the Shin-Etsu Group silicones manufacturing and sales company in China, booked a ¥4.6 billion impairment loss.

(Note) Amounts are stated in billions of yen by discarding fractional amounts less than 0.1 billion.